

**HEADWATER EXPLORATION INC.**  
**Interim Condensed Statements of Financial Position**  
(unaudited)

	March 31, 2026	December 31, 2025
<i>(Cdn\$ thousands)</i>	\$	\$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	63,056	99,655
Restricted cash (note 12)	2,350	2,350
Accounts receivable (note 12)	79,182	53,003
Financial derivative receivable (note 12)	1,135	393
Inventories	1,376	1,078
Prepays and deposits	1,765	1,562
<b>Total current assets</b>	<b>148,864</b>	<b>158,041</b>
Exploration and evaluation assets (note 3)	51,479	44,113
Property, plant and equipment (note 4)	827,356	790,753
Other assets	2,033	2,260
<b>Total assets</b>	<b>1,029,732</b>	<b>995,167</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (note 12)	86,074	65,695
Stock-based compensation payable (note 8)	20,104	28,711
Financial derivative liability (note 12)	13,937	1,225
Current portion of lease liability	982	959
Current income tax liability	-	790
Dividend payable (note 7)	26,154	26,154
Repayable contribution (note 6)	4,641	4,556
<b>Total current liabilities</b>	<b>151,892</b>	<b>128,090</b>
Lease liability	1,068	1,325
Stock-based compensation payable (note 8)	7,977	11,266
Decommissioning liability (note 5)	36,685	35,177
Repayable contribution (note 6)	7,335	7,202
Deferred income tax liability	67,207	63,952
<b>Total liabilities</b>	<b>272,164</b>	<b>247,012</b>
<b>Shareholders' Equity</b>		
Capital stock (note 7)	487,378	487,378
Contributed surplus	10,792	10,792
Retained earnings	259,398	249,985
<b>Total shareholders' equity</b>	<b>757,568</b>	<b>748,155</b>
<b>Total liabilities and shareholders' equity</b>	<b>1,029,732</b>	<b>995,167</b>

Subsequent event (note 13)

*See accompanying notes to the interim condensed financial statements*

Approved on behalf of the Board of Directors:

(signed) "Chandra Henry"  
Chandra Henry, CPA, CA, Director

(signed) "Neil Roszell"  
Neil Roszell, Executive Chairman

**HEADWATER EXPLORATION INC.**  
**Interim Condensed Statements of Income and**  
**Comprehensive Income**  
(unaudited)

	Three months ended March 31,	
	2026	2025
<i>(Cdn\$ thousands, except per share data)</i>	\$	\$
<b>REVENUE</b>		
Sales (note 9)	176,721	170,155
Royalties	(26,841)	(28,665)
Revenue, net of royalties	149,880	141,490
Losses on financial derivatives (note 12)	(17,436)	(5,652)
	132,444	135,838
<b>EXPENSES</b>		
Blending and transportation	19,283	17,694
Production	17,650	15,706
General and administrative	3,173	2,849
Stock-based compensation (note 8)	17,024	2,364
Depletion and depreciation	28,945	32,515
	86,075	71,128
Interest income and other expense (note 10)	(8)	472
Income before income taxes	46,361	65,182
Income taxes		
Current income tax expense	7,539	10,770
Deferred income tax expense	3,255	4,408
	10,794	15,178
Net income and comprehensive income	<b>35,567</b>	<b>50,004</b>
Net income per share (note 7)		
Basic	0.15	0.21
Diluted	0.15	0.21

*See accompanying notes to the interim condensed financial statements*

**HEADWATER EXPLORATION INC.**  
**Interim Condensed Statements of Cash Flows**  
(unaudited)

<b>Cash flow related to the following activities:</b> <i>(Cdn\$ thousands)</i>	Three months ended March 31,	
	2026	2025
	\$	\$
<b>OPERATING</b>		
Net income	35,567	50,004
Items not involving cash:		
Unrealized losses on financial derivatives (note 12)	11,970	2,486
Stock-based compensation	17,024	2,364
Depletion and depreciation	28,945	32,515
Income tax expense	10,794	15,178
Non-cash finance charges	598	683
Settlement of decommissioning liability (note 5)	-	(101)
Income taxes paid (note 11)	(11,145)	(26,306)
Change in non-cash operating working capital (note 11)	(53,684)	(6,888)
Cash flows provided by operating activities	40,069	69,935
<b>FINANCING</b>		
Payment of lease liability	(282)	(199)
Dividends paid (note 7)	(26,154)	(23,776)
Cash flows used in financing activities	(26,436)	(23,975)
<b>INVESTING</b>		
Capital expenditures – exploration and evaluation (note 3)	(7,366)	(8,388)
Capital expenditures – property, plant and equipment (note 4)	(59,374)	(54,459)
Change in non-cash investing working capital (note 11)	16,508	(256)
Cash flows used in investing activities	(50,232)	(63,103)
Change in cash and cash equivalents	(36,599)	(17,143)
Cash and cash equivalents, beginning of period	99,655	142,694
Cash and cash equivalents, end of period	63,056	125,551

*See accompanying notes to the interim condensed financial statements*

**HEADWATER EXPLORATION INC.**  
**Interim Condensed Statements of Changes in Shareholders' Equity**  
(unaudited)

	Notes	Capital stock	Contributed surplus	Retained earnings	Total shareholders' equity
<i>(Cdn\$ thousands)</i>		\$	\$	\$	\$
<b>Balance at January 1, 2025</b>		<b>486,984</b>	<b>10,969</b>	<b>201,506</b>	<b>699,459</b>
Exercise of stock options	7	85	(85)	-	-
Stock-based compensation	8	-	123	-	123
Net income		-	-	50,004	50,004
Dividends declared	7	-	-	(26,155)	(26,155)
<b>Balance at March 31, 2025</b>		<b>487,069</b>	<b>11,007</b>	<b>225,355</b>	<b>723,431</b>
<b>Balance at January 1, 2026</b>		<b>487,378</b>	<b>10,792</b>	<b>249,985</b>	<b>748,155</b>
Net income		-	-	35,567	35,567
Dividends declared	7	-	-	(26,154)	(26,154)
<b>Balance at March 31, 2026</b>		<b>487,378</b>	<b>10,792</b>	<b>259,398</b>	<b>757,568</b>

*See accompanying notes to the interim condensed financial statements*

# HEADWATER EXPLORATION INC.

## Notes to the Interim Condensed Financial Statements

(unaudited)

As at and for the three months ended March 31, 2026 and 2025

*(All tabular amounts in thousands, unless otherwise stated)*

### 1. NATURE OF OPERATIONS

Headwater Exploration Inc. (“Headwater” or the “Company”) is a Canadian resource company engaged in the exploration for and development and production of petroleum and natural gas in Canada. Headwater is a public company existing under the Alberta Business Corporations Act with common shares listed on the Toronto Stock Exchange (“TSX”) under the symbol “HWX”.

Headwater’s principal place of business is located at 1400, 215 – 9<sup>th</sup> Avenue S.W., Calgary, Alberta, T2P 1K3 and its registered office is located at 2400, 525 – 8<sup>th</sup> Avenue S.W., Calgary, Alberta, T2P 1G1.

### 2. BASIS OF PREPARATION

These unaudited interim condensed financial statements have been prepared in accordance with IAS 34 – *Interim Financial Reporting* as issued by the International Accounting Standards Board (“IASB”). The unaudited interim condensed financial statements do not include all information required for annual financial statements and should be read in conjunction with the Company’s audited financial statements for the year ended December 31, 2025. These unaudited interim condensed financial statements have been prepared following the same accounting policies as the Company’s audited financial statements for the year ended December 31, 2025, except for the below.

During the three months ended March 31, 2026, the Company adopted amendments to IFRS 9 “Financial Instruments” and IFRS 7 “Financial Instruments: Disclosures”. These amendments clarify the date of recognition and derecognition of some financial assets and liabilities. These amendments did not have a material impact on the Company’s financial statements.

The timely preparation of these financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ materially from these estimates. Significant judgments, estimates and assumptions made by management in these financial statements are outlined in the audited financial statements for the year ended December 31, 2025.

These unaudited interim condensed financial statements were approved and authorized for issue by the Board on April 30, 2026.

### 3. EXPLORATION AND EVALUATION (“E&E”) ASSETS

The following table reconciles the movements of the Company’s E&E assets for the periods:

	March 31, 2026	December 31, 2025
	\$	\$
Balance, beginning of period	44,113	30,089
Additions	7,366	48,908
E&E expense	-	(8,256)
Transfers to PP&E (note 4)	-	(26,628)
Balance, end of period	51,479	44,113

The Company concluded there are no indicators of impairment for its E&E assets as at March 31, 2026. During the year ended December 31, 2025, the company recognized \$8.3 million of E&E expense related to its Saskatchewan assets.

#### 4. PROPERTY, PLANT AND EQUIPMENT (“PP&E”)

The following table reconciles the movements of the Company's PP&E assets for the periods:

	Oil and gas properties		Corporate	Total
Cost	\$	\$	\$	
Balance at December 31, 2024	1,323,296		2,907	1,326,203
Additions	193,058		36	193,094
Transfers from E&E (note 3)	26,628		-	26,628
Changes in decommissioning liability (note 5)	(14,781)		-	(14,781)
Balance at December 31, 2025	1,528,201		2,943	1,531,144
Additions <sup>(1)</sup>	64,140		11	64,151
Changes in decommissioning liability (note 5)	1,170		-	1,170
Balance at March 31, 2026	1,593,511		2,954	1,596,465
<b>Accumulated depletion, depreciation and impairment</b>				
Balance at December 31, 2024	611,746		2,437	614,183
Depletion or depreciation expense	126,147		61	126,208
Balance at December 31, 2025	737,893		2,498	740,391
Depletion or depreciation expense	28,703		15	28,718
Balance at March 31, 2026	766,596		2,513	769,109
Net book value at December 31, 2025	790,308		445	790,753
Net book value at March 31, 2026	826,915		441	827,356

(1) Includes capitalized general and administrative expenses of \$1.3 million and capitalized stock-based compensation of \$4.8 million.

The Company concluded there are no indicators of impairment for its PP&E assets as at March 31, 2026 and December 31, 2025.

#### 5. DECOMMISSIONING LIABILITY

The following table reconciles the movements of the Company's decommissioning liability for the periods:

	March 31, 2026	December 31, 2025
	\$	\$
Balance, beginning of period	35,177	48,603
Additions	1,042	8,773
Settlements	-	(332)
Change in estimate <sup>(1)</sup>	128	(23,554)
Accretion (note 10)	338	1,687
Balance, end of period	36,685	35,177
<b>Key assumptions</b>		
Risk free rate	3.9%	3.9%
Inflation rate	2.1%	2.0%

- (1) Relates to changes in the risk-free rate, inflation rate and cost estimates for the period ended March 31, 2026. For the year ended December 31, 2025 relates to changes in the risk-free rate, inflation rate, time to abandonment and cost estimates. Of this amount, a \$12.9 million downward revision is the result of a change in cost estimates underpinned by a decrease to the industry's abandonment cost benchmarks, a \$6.2 million downward revision relates to changes in time to abandonment, a \$6.5 million downward revision is a result of an increase in risk-free rate over the year from 3.3% at December 31, 2024 to 3.9% at December 31, 2025 and a \$2.0 million upward revision is a result of an increase in the inflation rate over the year from 1.8% at December 31, 2024 to 2.0% at December 31, 2025..

The Company has estimated the net present value of its total decommissioning liabilities to be \$36.7 million as at March 31, 2026 (December 31, 2025 - \$35.2 million). The total future inflated and undiscounted amount of estimated cash flows required to settle these obligations is \$154.0 million (December 31, 2025 - \$147.1 million). Management estimates the settlement of these obligations will occur over the next 30 to 40 years.

## 6. REPAYABLE CONTRIBUTION (NRCan ERF)

In 2022 and 2023, the Company received approval of a total of four claims pursuant to a repayable contribution agreement with the Department of Natural Resources Canada ("NRCan"), under the Emissions Reduction Fund ("ERF") Onshore Program. All funds have been received by the Company with respect to the four claims.

The Company has recognized a repayable contribution of \$12.8 million, undiscounted, and \$12.0 million discounted as at March 31, 2026 (December 31, 2025 – \$12.8 million and \$11.8 million respectively), with respect to claims submitted to the ERF and confirmed by NRCan. The Company discounts the repayable contribution at a weighted average interest rate of 7.7%. The repayable portion of the funds received are to be repaid as follows: 10% was repaid on June 30, 2025, with the remaining 33% to be repaid on June 30, 2026, and 57% on June 30, 2027.

	March 31, 2026	December 31, 2025
	\$	\$
Balance, beginning of period	11,758	12,289
Repayment	-	(1,417)
Interest (note 10)	218	886
Balance, end of period	11,976	11,758
Current portion of repayable contribution	4,641	4,556
Long-term portion of repayable contribution	7,335	7,202

The Company is in compliance with all terms and conditions of the repayable contribution agreement.

## 7. CAPITAL STOCK

- a) Issued, authorized and outstanding

	March 31, 2026		December 31, 2025	
	Number of shares	Amount	Number of shares	Amount
		\$		\$
Balance, beginning of period	237,763	487,378	237,757	486,984
Exercise of stock options	-	-	53	331
Purchase of common shares for cancellation	-	-	(1,047)	(7,654)
Issued on land acquisition	-	-	1,000	7,740
Share issue costs, net of deferred tax	-	-	-	(23)
Balance, end of period	237,763	487,378	237,763	487,378

During the year ended December 31, 2025, 177 thousand stock options were exercised for 53 thousand common shares on a cashless basis. Contributed surplus related to the options exercised of \$331 thousand was transferred to capital stock.

During the year ended December 31, 2025, Headwater issued 1.0 million common shares as consideration for certain E&E assets.

b) NCIB

On May 1, 2025, Headwater announced TSX approval of its Normal Course Issuer Bid (“NCIB”) to purchase for cancellation up to 19,020,755 common shares during the period commencing on May 6, 2025, and terminating on the earlier of: (i) the date on which the Company has acquired all common shares sought pursuant to the NCIB; or (ii) to May 5, 2026, unless earlier terminated at the option of the Company, upon prior notice being given to the TSX.

During the year ended December 31, 2025, Headwater utilized its NCIB which resulted in approximately 1.05 million common shares being purchased for cancellation at an average price of \$7.30 per common share for total consideration of \$7.7 million. Total consideration includes commissions and a 2% federal tax accrued on the purchase, which is charged against capital stock.

The Company did not utilize its NCIB during the three months ended March 31, 2026.

c) Per share amounts

Basic per share amounts are calculated using the weighted average number of shares outstanding. The Company uses the treasury stock method to determine the impact of dilutive securities. The reconciling items between basic and diluted average common shares outstanding are stock options, restricted share units (“RSUs”), performance share units (“PSUs”) and accrued dividends on RSUs and PSUs.

	Three months ended March 31,	
	2026	2025
Weighted average shares outstanding		
Basic	237,763	237,772
Diluted	239,366	237,813

d) Dividends

During the three months ended March 31, 2026, the Company declared \$26.2 million (year ended December 31, 2025 - \$104.7 million) related to its quarterly cash dividend. Included in current liabilities is the dividend payable of \$26.2 million for the dividend declared on March 5, 2026, and paid out on April 15, 2026.

The Company increased its quarterly cash dividend to \$0.11 per common share (\$0.44 per common share annualized) effective for the dividend paid on April 15, 2025 to shareholders of record at the close of business on March 31, 2025.

## 8. STOCK-BASED COMPENSATION

### a) Stock-based compensation expense

The following table summarizes the breakdown of stock-based compensation expense for the periods:

	Three months ended March 31,	
	2026	2025
	\$	\$
Deferred share units	2,539	790
Share awards	19,262	2,054
Capitalized stock-based compensation	(4,777)	(480)
<b>Total stock-based compensation expense</b>	<b>17,024</b>	<b>2,364</b>

### b) Share awards

The Company has an awards plan which provides for grants of RSUs and PSUs to officers, employees and consultants of the Company. Generally, one third of the RSUs will vest on each of the first, second and third anniversaries of the date of grant and all PSUs will vest on the third anniversary of the date of grant, unless otherwise determined by the Board of Directors. RSUs and PSUs are cash-settled. For PSUs, the amount of stock-based compensation payable and related expense is adjusted based on a performance multiplier ranging from 0 to 2 times.

#### **PSUs (Cash-Settled)**

The following table summarizes the changes in the PSU liability for the periods:

	March 31,	December 31,
	2026	2025
	\$	\$
Balance, beginning of period	32,886	16,952
Increase in liability/fair value adjustment <sup>(1)</sup>	17,531	26,916
Payout <sup>(1) (2)</sup>	(30,992)	(10,982)
Balance, end of period	19,425	32,886
Current portion of stock-based compensation payable	11,836	22,445
Long-term portion of stock-based compensation payable	7,589	10,441

(1) Includes dividend adjustment.

(2) Includes an incremental 1.2 million units cash settled pursuant to a performance multiplier adjustment.

The PSU liability as at March 31, 2026 of \$19.4 million is based on a fair value of \$12.85 per PSU, which is the Company's closing share price on March 31, 2026.

The following table summarizes the changes in the number of outstanding PSUs for the periods:

	March 31,	December 31,
	2026	2025
Outstanding, beginning of period	3,729	3,116
Granted	746	1,441
Forfeited	-	(7)
Released upon vesting	(1,030)	(821)
<b>Outstanding, end of period</b>	<b>3,445</b>	<b>3,729</b>

### **RSUs (Cash-Settled)**

The following table summarizes the changes in the RSU liability for the periods:

	March 31, 2026	December 31, 2025
	\$	\$
Balance, beginning of period	2,743	1,850
Increase in liability/fair value adjustment <sup>(1)</sup>	1,731	2,352
Payout <sup>(1)</sup>	(2,132)	(1,459)
Balance, end of period	2,342	2,743
Current portion of stock-based compensation payable	1,954	1,918
Long-term portion of stock-based compensation payable	388	825

(1) Includes dividend adjustment.

The RSU liability as at March 31, 2026 of \$2.3 million is based on a fair value of \$12.85 per RSU, which is the Company's closing share price on March 31, 2026.

The following table summarizes the changes in the number of outstanding RSUs for the periods:

	March 31, 2026	December 31, 2025
Outstanding, beginning of period	443	432
Granted	130	253
Forfeited	(7)	(37)
Released upon vesting	(189)	(205)
Outstanding, end of period	377	443

### c) Deferred share units ("DSUs")

The Company has a DSU plan which provides for grants of DSUs to non-management directors. Each DSU vests on the date of grant; however, settlement of the DSU occurs when the individual ceases to be a director of the Company. DSUs are to be settled in cash or by payment in common shares acquired through the facilities of the TSX. It is the intention of the Company to settle DSUs in cash.

The following table summarizes the changes in the DSU liability for the periods:

	March 31, 2026	December 31, 2025
	\$	\$
Balance, beginning of period	4,348	2,879
Increase in liability/fair value adjustment <sup>(1)</sup>	2,539	2,563
Payout <sup>(1)</sup>	(573)	(1,094)
Balance, end of period	6,314	4,348
Current portion of stock-based compensation payable	6,314	4,348

(1) Includes dividend adjustment.

The DSU liability as at March 31, 2026 of \$6.3 million is based on a fair value of \$12.85 per DSU, which is the Company's closing share price on March 31, 2026.

The following table summarizes the changes in the number of outstanding DSUs for the periods:

	March 31, 2026	December 31, 2025
Outstanding, beginning of period	409	400
Granted	76	161
Released	(46)	(152)
Outstanding, end of period	439	409

## 9. SALES

The following table presents the Company's sales disaggregated by revenue source:

	Three months ended March 31,	
	2026	2025
	\$	\$
Heavy oil	159,923	153,684
Natural gas	15,291	14,623
Natural gas liquids	900	1,032
Gathering, processing and transportation	607	816
	176,721	170,155

Included in accounts receivable as at March 31, 2026 is \$74.0 million (December 31, 2025 - \$52.2 million) of accrued sales related to March 2026 production.

## 10. INTEREST INCOME AND OTHER EXPENSE

Interest income and other expense consists of the following:

	Three months ended March 31,	
	2026	2025
	\$	\$
Interest income	590	1,155
Realized and unrealized foreign exchange losses	-	(1)
Accretion on decommissioning liability (note 5)	(338)	(404)
Interest on repayable contribution (note 6)	(218)	(228)
Interest on lease liability	(42)	(50)
	(8)	472

- (1) Included within non-cash finance charges in the statement of cash flows are unrealized foreign exchange gains (losses), accretion on decommissioning liability, interest on repayable contribution and interest on lease liability.

## 11. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended March 31,	
	2026	2025
	\$	\$
Change in non-cash operating working capital:		
Accounts receivable	(23,359)	5,149
Inventories	(298)	50
Prepays and deposits	(203)	(20)
Accounts payable and accrued liabilities	3,873	(369)
Payout of stock-based compensation	(33,697)	(11,698)
	(53,684)	(6,888)
Change in non-cash investing working capital:		
Accounts receivable	2	(4,229)
Accounts payable and accrued liabilities	16,506	3,973
	16,508	(256)
Cash income taxes paid	11,145	26,306
Cash interest received	664	1,218

## 12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments of the Company include cash and cash equivalents, restricted cash, accounts receivable, financial derivative receivable/liability, deposits, accounts payable and accrued liabilities, dividends payable and repayable contribution. The Company is exposed to financial risks arising from its financial assets and liabilities that include credit risk in addition to market risks associated with commodity prices and foreign exchange rates.

a) The Company is exposed to the following risks:

i) Commodity price risk

Headwater enters into financial derivative commodity contracts to manage the risks associated with fluctuations in commodity prices. All such transactions are conducted in accordance with the Company's established risk management policies. The Company does not use derivative financial instruments for speculative purposes.

The Company had the following outstanding financial derivative commodity contracts as at March 31, 2026:

Commodity	Index	Type	Term	Daily Volume	Contract Price
Natural Gas	AGT <sup>(1)</sup>	Fixed	Apr 2026	5,000 mmbtu	Cdn\$5.31/mmbtu
Natural Gas	AGT	Fixed	Dec 2026 – Mar 2027	5,000 mmbtu	Cdn\$17.88/mmbtu
Natural Gas	AECO 5A	Fixed	Apr 2026 - Oct 2026	4,000 GJ	Cdn\$2.49/GJ
Crude Oil	WCS Basis <sup>(2)</sup>	Differential	Apr 2026 – Dec 2026	2,000 bbl	US\$13.00/bbl
Crude Oil	WTI <sup>(3)</sup>	Fixed	Apr 2026 – Dec 2026	2,500 bbl	Cdn\$95.03/bbl

(1) AGT = Algonquin city-gates

(2) WCS = Western Canadian Select

(3) WTI = West Texas Intermediate

The Company has recorded \$2.0 million (December 31, 2025 - \$2.0 million) of restricted cash in the Statement of Financial Position as collateral for certain financial derivatives with a counterparty.

The following table summarizes the Company's financial derivative losses on commodity contracts for the periods:

	Three months ended March 31,	
	2026	2025
	\$	\$
Losses on financial derivatives:		
- realized losses	(5,466)	(3,166)
- unrealized losses	(11,970)	(2,486)
<b>Losses on financial derivatives</b>	<b>(17,436)</b>	<b>(5,652)</b>

The following table summarizes the fair value as at March 31, 2026 and the change in fair value for the three months ended March 31, 2026:

	Commodity contracts
	\$
Net financial derivative liability, beginning of period	(832)
Unrealized change in fair value	(11,970)
<b>Net financial derivative liability, end of period</b>	<b>(12,802)</b>

The fair value of the net financial derivative liability related to the Company's commodity contracts of \$12.8 million as at March 31, 2026 is based on estimated future natural gas and oil prices as of that date. The fair values of these financial derivative commodity contracts are sensitive to changes in the natural gas and oil reference prices. Holding other assumptions constant, if the WTI, AECO 5A and AGT price increased by 10% and the WCS differential to WTI decreased by 10%, the fair value of the net financial derivative liability would increase (decrease) by \$10.0 million.

#### ii) Foreign currency risk

The Company is exposed to fluctuations in the Canadian to U.S. dollar exchange rate given realized pricing is directly influenced by U.S. dollar denominated benchmark pricing and from exposure to its U.S. dollar denominated WCS commodity contracts. Headwater may decide to mitigate a portion of this risk by periodically entering into foreign exchange contracts. As at March 31, 2026, Headwater did not have any foreign exchange contracts outstanding.

#### **Fair Value Measurement**

The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The Company maximizes the use of observable inputs when preparing calculations of fair value, where possible.

The fair value of cash and cash equivalents, restricted cash, accounts receivable, deposits, accounts payable and accrued liabilities and dividends payable approximate their carrying value due to the short term to maturity of these instruments. The repayable contribution has been discounted at an estimated market rate and therefore carrying value approximates fair value.

The Company's financial derivative receivable/liability is considered Level 2 in the fair value hierarchy.

#### iii) Credit risk

At March 31, 2026, the expected credit loss on the Company's accounts receivable was \$nil. As at March 31, 2026, the Company's receivables consisted of \$74.0 million (December 31, 2025 - \$52.2 million) from crude oil and natural gas marketers, \$1.4 million from commodity contract counterparties (December 31, 2025 - \$nil), \$0.9 million (December 31, 2025 - \$0.8 million) from joint venture partners and \$2.9 million (December 31, 2025 - \$nil)

related to income taxes receivable and other. With the exception of amounts outstanding from the Company's joint venture partners, trade receivables generally have a 30-day term. The majority of receivables have been collected subsequent to March 31, 2026.

#### iv) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages liquidity risk through its working capital and an actively managed operating and capital expenditure budgeting process. As at March 31, 2026, the Company was holding cash of \$63.1 million.

#### **Credit Facilities**

The Company has a senior secured revolving syndicated credit facility with the National Bank of Canada and the Bank of Montreal ("the Lenders"). The credit facility is comprised of extendible revolving credit facilities consisting of a \$20.0 million operating facility and an \$80.0 million syndicated facility. Headwater also has an uncommitted accordion feature that provides the Company with the ability to access an incremental \$100.0 million, subject to certain conditions including approval from the Lenders.

As at March 31, 2026, Headwater had not drawn on the credit facility.

The credit facilities have a revolving period of 364 days, extendible annually at the request of the Company, subject to approval of the Lenders. If not extended, the credit facilities will automatically convert to a term loan and all outstanding obligations will be repayable one year after the expiry of the revolving period. The borrowing base is subject to semi-annual redeterminations occurring by May 31<sup>st</sup> and by November 30<sup>th</sup> of each year. The credit facilities are secured by a demand debenture in the amount of \$500 million. Repayments of principal are not required until the maturity date, provided that the borrowings do not exceed the authorized borrowing base and the Company is in compliance with all covenants, representations and warranties.

The credit facility bears interest at a floating market rate with margins charged by the Lenders linked to the Company's senior debt to EBITDA ratio. EBITDA, for the purposes of calculating the senior debt to EBITDA ratio, is calculated as net income adjusted for non-cash items, interest expense and income taxes. Senior debt, for the purposes of calculating the senior debt to EBITDA ratio, is calculated as any debt of the Company excluding the financial derivative liability and repayable contribution.

The credit facility is not subject to any financial covenants. Additionally, distributions are permitted subject to compliance with a Board approved distributions policy.

#### b) Management of capital

The Company's objectives when managing capital are to i) deploy capital to provide an appropriate return on investment to its shareholders; ii) maintain financial flexibility in order to preserve the Company's ability to meet financial obligations; and iii) maintain a capital structure that provides financial flexibility to execute strategic acquisitions. To aid in managing the capital structure, the Company monitors adjusted working capital and adjusted funds flow from operations.

During the three months ended March 31, 2026, the Company declared \$26.2 million related to its quarterly cash dividend (year ended December 31, 2025 – \$104.7 million). The Company increased its quarterly cash dividend to \$0.11 per common share, from \$0.10 per common share, effective for the dividend paid on April 15, 2025 to shareholders of record at the close of business on March 31, 2025. Included in current liabilities is \$26.2 million for the dividend declared on March 5, 2026, and paid out on April 15, 2026.

On May 1, 2025, Headwater announced TSX approval of Headwater's NCIB to purchase for cancellation up to 19,020,755 common shares during the period commencing on May 6, 2025.

The Company's strategy is designed to maintain a flexible capital structure consistent with the objectives as stated above and to respond to changes in economic conditions and the risk characteristics of the underlying crude oil

and natural gas assets. Key indicators of changing economic conditions include adjusted working capital and adjusted funds flow from operations. Headwater considers its capital structure to include shareholders' equity and working capital. In order to maintain or adjust its capital structure, the Company may from time to time issue new common shares, seek debt financing, change its future return of capital policy and adjust its capital spending to manage working capital.

In order to facilitate the management of its capital expenditures and working capital, the Company prepares annual budgets which are updated quarterly depending upon varying factors including current and forecast crude oil and natural gas prices, capital expenditures and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

i) Adjusted working capital

Management considers adjusted working capital to be a key measure to assess the Company's liquidity and capital management.

	As at March 31, 2026	As at December 31, 2025
	\$	\$
Working capital (deficit)	(3,028)	29,951
Repayable contribution	(7,335)	(7,202)
Financial derivative receivable	(1,135)	(393)
Financial derivative liability	13,937	1,225
<b>Adjusted working capital</b>	<b>2,439</b>	<b>23,581</b>

ii) Adjusted funds flow from operations

Management considers adjusted funds flow from operations to be a key measure to assess the Company's management of capital. Adjusted funds flow from operations is an indicator as to whether adjustments are necessary to the level of capital expenditures. For example, in periods where adjusted funds flow from operations is negatively impacted by reduced commodity pricing, capital expenditures may need to be reduced or curtailed to preserve the Company's capital structure and return of capital policy. Management believes that by excluding the impact of changes in non-cash working capital and adjusting for current income taxes in the period, adjusted funds flow from operations provides a useful measure of Headwater's ability to generate the funds necessary to manage the capital needs of the Company. In addition to being a capital management measure, adjusted funds flow from operations is used by management to assess the Company's financial performance.

	Three months ended March 31,	
	2026	2025
	\$	\$
Cash flows provided by operating activities	40,069	69,935
Changes in non-cash working capital	53,684	6,888
Current income taxes	(7,539)	(10,770)
Income taxes paid	11,145	26,306
<b>Adjusted funds flow from operations</b>	<b>97,359</b>	<b>92,359</b>

Adjusted working capital and adjusted funds flow from operations are not standardized measures and, therefore, may not be comparable with the calculation of similar measures of other entities.

### **13. SUBSEQUENT EVENT**

a) Dividend

Subsequent to March 31, 2026, the Board approved an increase to the Company's quarterly dividend to \$0.12 per common share from \$0.11 per common share.

For the second quarter of 2026, the Company declared a cash dividend of \$0.12 per common share. The dividend will be paid on July 15, 2026, to shareholders of record at the close of business on June 30, 2026.